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January 20, 2000

Guy M. Hicks
General Counsel

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EXHIBIT

VIA HAND DELIVERY

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

Re: *Contested Cost Proceeding to Establish Final Cost Based Rates for
Interconnection and Unbundled Network Elements*
Docket No. 97-01262

Dear Mr. Waddell:

Enclosed are the original and thirteen copies of the Comments of BellSouth Telecommunications, Inc. Copies of the enclosed are being provided to counsel of record for all parties.

Very truly yours,

Guy M. Hicks

GMH:ch
Enclosure

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BEFORE THE TENNESSEE REGULATORY AUTHORITY
Nashville, Tennessee

In Re: *Contested Cost Proceeding to Establish Final Cost Based Rates for Interconnection and Unbundled Network Elements*

Docket No. 97-01262

COMMENTS OF
BELLSOUTH TELECOMMUNICATIONS, INC.

Pursuant to the December 13, 1999 Notice of the Prehearing Officer, BellSouth Telecommunications, Inc. ("BellSouth") respectfully submits its comments on the cost studies recently filed by the parties in this proceeding. BellSouth previously has raised questions about certain adjustments to BellSouth's cost studies directed by the Tennessee Regulatory Authority ("Authority"), which BellSouth will not reiterate here. However, BellSouth would like to take this opportunity to express continued concern about the results of those adjustments, as illustrated by their effect on the cost of a two-wire analog loop and two-wire port under BellSouth's cost studies. By every conceivable measure, these costs have been skewed to such an extent that, if relied upon as the basis for establishing rates, the Authority will set rates for unbundled network elements well below the "just and reasonable" rates required by the Telecommunications Act of 1996 ("1996 Act"). See 47 U.S.C. § 252(d)(2).

In its December 1997 cost studies, BellSouth calculated the forward-looking cost of a two-wire loop in Tennessee to be \$19.03.¹ By contrast, using the Hatfield model as originally

¹ BellSouth developed the cost of two types of two-wire analog loops, a service level one (SL1) loop and a service level two (SL2) loop. While both service level loops can be used to provide local exchange service, an SL1 loop equates more to POTS, while an SL2 equates to a designed circuit and reflects the cost of a Design Layout Record (DLR), test access points, ground start facilities, and manual order coordination. For ease of reference, BellSouth's comments will focus only on the SL1 loop, which is equivalent to the two-wire analog loop studied by the Hatfield model.

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submitted, AT&T and MCI calculated the cost of a two-wire analog loop in Tennessee to be \$16.12. In short, during the early stages of this proceeding, the cost of a two-wire loop as calculated by BellSouth was \$2.91 higher than the cost calculated by AT&T and MCI.

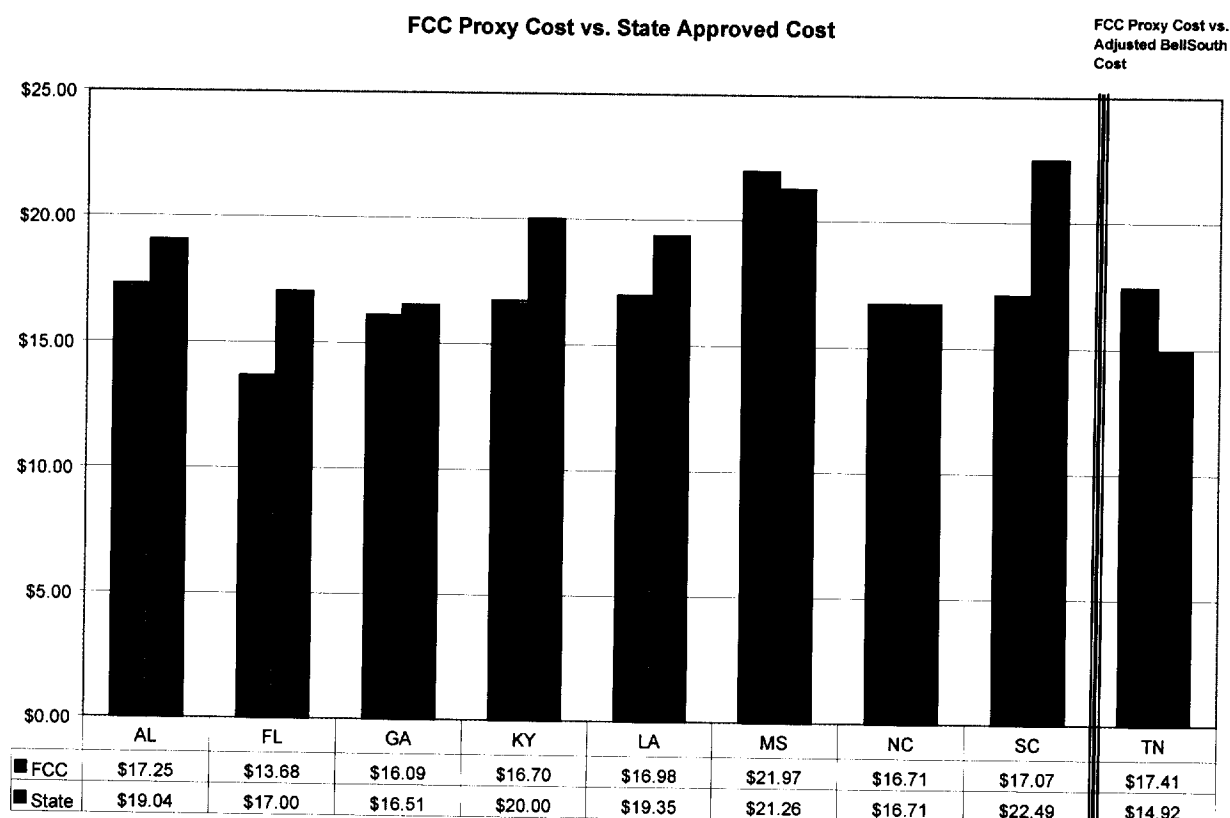
However, by the time the compliance filings were made in December 1999, the relationship between the loop cost as calculated by BellSouth and AT&T and MCI had changed dramatically. With the Authority-directed adjustments, the cost of a two-wire loop under BellSouth's cost studies had been reduced to \$14.92, a decrease of more than 27 percent. By contrast, with the adjustments to the Hatfield Model ordered by the Authority, the cost of a two-wire analog loop as calculated by AT&T and MCI rose to \$17.00, an increase of approximately 5%. Thus, while the cost of a two-wire loop under BellSouth's cost studies as filed was *\$2.91 higher* than the cost calculated by the Hatfield model, the adjustments to BellSouth's cost studies caused the cost of a two-wire loop to be *\$2.08 lower* than the Hatfield model cost.

This is a somewhat startling development, given that the Hatfield model has been held out by AT&T as the only proxy cost model to comply with the FCC's TELRIC pricing rules and the only model to employ least cost, forwarding looking technologies. Yet, as a result of the Authority's decisions to date, the cost of a two-wire loop as generated by BellSouth's cost studies is actually lower than the cost generated by the Hatfield model.²

² If the past is any indication, AT&T will argue that further adjustments should be made to BellSouth's cost studies, including: (1) assuming 100% deployment of integrated digital loop carrier ("IDLC") systems (rather than the mix of IDLC and non-integrated digital loop carrier systems directed by the Authority); and (2) assuming deployment of GR303 digital loop carrier systems. These issues should have been raised, if at all, in the context of the petitions for reconsideration of the Authority's January 25, 1999 Interim Order. Nevertheless, it is interesting that, under the Hatfield model, which presumably embodies AT&T's proposed "least cost, most forward looking" assumptions, the cost of a two-wire loop is 14% higher than the cost of a two-wire loop under BellSouth's cost studies, as adjusted by the Authority. While this disparity underscores the unreasonableness of the Authority's adjustments, it also belies AT&T's argument that further adjustments should be made to BellSouth's cost studies.

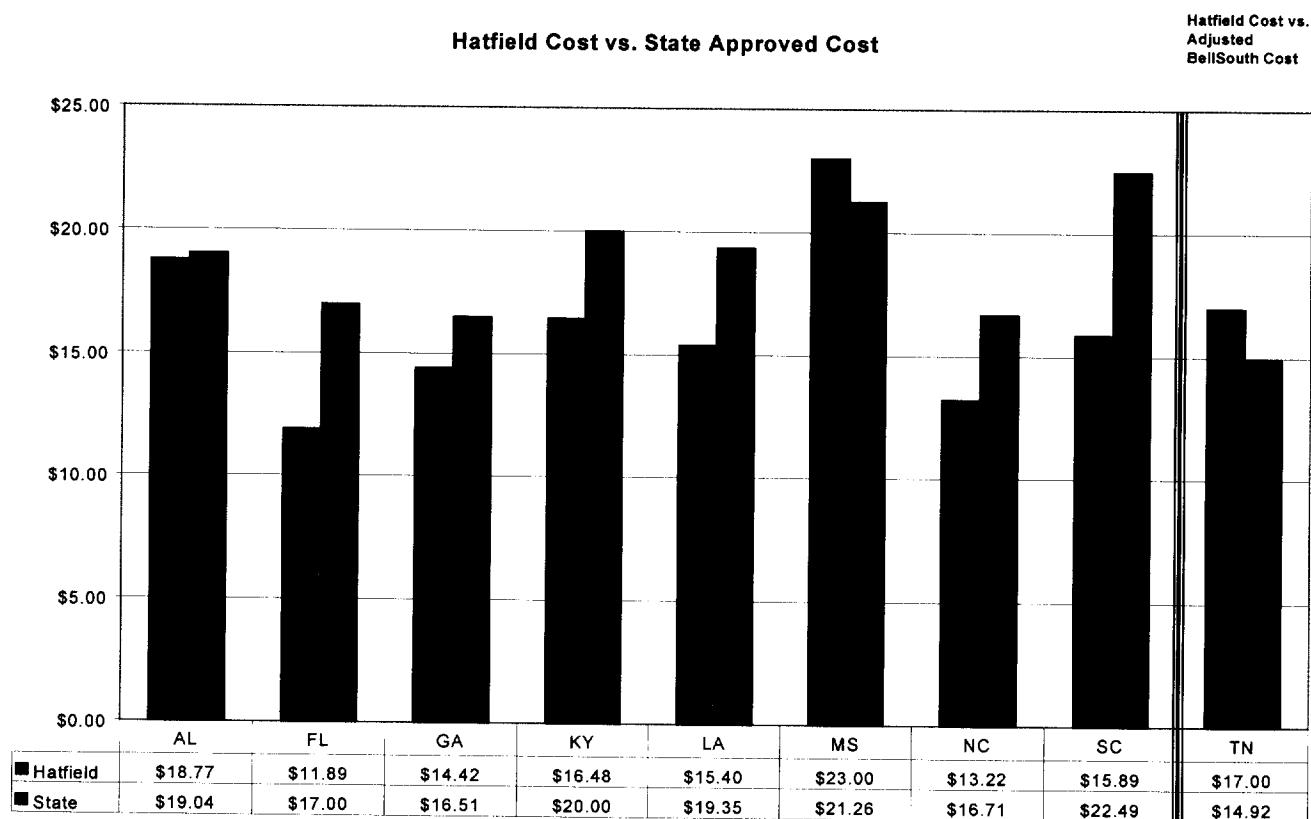
The establishment of a statewide rate of \$14.92 for an unbundled two-wire analog loop would be difficult to reconcile with the FCC's rules. In 47 C.F.R. § 51.513, the FCC has established proxies for the forward-looking economic cost of a two-wire loop, which a state commission is authorized to use to establish rates if "the cost information available to it does not support the adoption of a rate or rates that are consistent with [the FCC's pricing rules]." In Tennessee, that proxy is \$17.41. 47 C.F.R. § 51.513(c) (1998). When one considers the FCC's proxy cost of \$17.41 as well as the \$17.00 cost generated by the Hatfield Model, it is clear that the forward-looking cost of an unbundled two-wire analog loop in Tennessee should be well above the \$14.92 that results from BellSouth's adjusted cost studies.

As graphically illustrated below, no state commission in BellSouth's region (with the exception of Mississippi) has established a rate for a two-wire loop that is less than the FCC proxy loop cost:



Even in Mississippi, the state-approved rate for a two-wire analog loop is \$21.26, which is only \$0.71 less than the FCC proxy cost (or 3.3%). By contrast, if the Authority were to establish \$14.92 as the rate for a two-wire loop in Tennessee, that rate would be \$2.49 less than the FCC proxy cost (or 16.7%).³

Likewise, as the graph below illustrates, no state commission in BellSouth's region (with the exception of Mississippi) has established a rate for a two-wire loop that is less than the economic cost calculated by the Hatfield Model:



³ The North Carolina rates reflected in these Comments are approved interim rates, as the North Carolina Utilities Commission has not yet issued a final order establishing permanent rates for unbundled network elements in North Carolina.

The most alarming aspect of the Authority's adjustments to BellSouth's cost studies is that, if adopted, *the rate for a two-wire loop in Tennessee (\$14.92) would be the lowest loop rate in BellSouth's region.* The same would be true for the line port, as illustrated below:

<u>State</u>	<u>Approved Line Port Cost</u>
AL	\$2.07
FL	\$2.00
GA	\$1.85
KY	\$2.61
LA	\$2.20
MS	\$2.11
NC	\$2.00
SC	\$2.35

<u>Adjusted BellSouth Line Port Cost</u>
TN
\$1.70

There is simply no reason to believe that BellSouth's costs in Tennessee are the lowest in its region. Indeed, there is every reason to believe precisely the opposite. For example, according to the FCC, the economic cost of a loop in Tennessee is actually the second highest in BellSouth's region (second only to Mississippi). The FCC's calculations are generally consistent with the results of the Hatfield Model on this point, which reflect that the forward-looking cost of a loop in Tennessee is the third highest in BellSouth's region (according to the Hatfield Model, only Mississippi and Alabama have higher loop costs).⁴

⁴ BellSouth recognizes that there have been numerous iterations of the Hatfield Model and that the costs generated by these different iterations has varied. However, the figures in these comments represent the loop cost as represented by AT&T and MCI in the various generic cost proceedings or state arbitrations, where applicable.

BellSouth recognizes the difficulty inherent in establishing rates and appreciates the magnitude of the task facing this Authority in attempting to balance the competing interests of the parties in this docket. However, the Telecommunications Act of 1996 requires that rates for unbundled network elements established by a state commission be "just and reasonable." By every objective measure, establishing rates based upon BellSouth's cost studies as adjusted by this Authority would violate this statutory standard.

Respectfully submitted,

BellSouth Telecommunications, Inc.

A large, stylized handwritten signature in black ink, appearing to read "Guy M. Hicks", is written over a horizontal line.

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CERTIFICATE OF SERVICE

I hereby certify that on January 20, 2000, a copy of the foregoing document was served on the parties of record as indicated:

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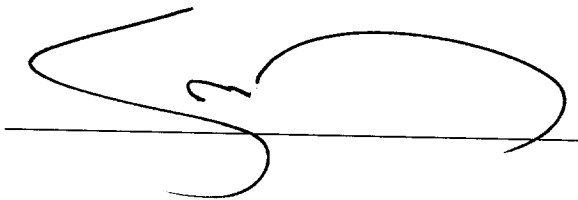
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A handwritten signature in black ink, appearing to be 'JPL', written over a horizontal line.